REITs

2H26 Outlook

MARKET WEIGHT
(Maintained)

Analyst(s)
Ng Jo Yee
joyee@uobkayhian.com
+603 2147 1984

Highlights

- We expect sector valuations to remain range-bound, due to the removal of the WHT concession and geopolitical uncertainty, while being supported by event-driven catalysts such as the listing of IOIPG REIT in 4Q25 and potential yield-accretive acquisitions.
- The sector still has headroom for debt-funded acquisitions with an average gross gearing of 0.34x, while a potential increase in threshold from 0.5x to 0.6x would provide better funding flexibility.
- Maintain MARKET WEIGHT. Top picks are CLMT, PREIT and SREIT.

Analysis

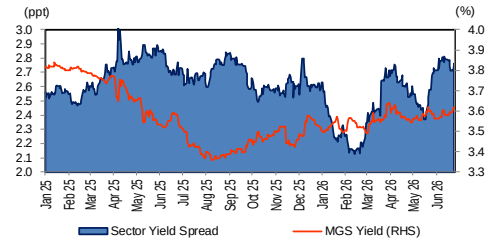
- **Sector to remain range-bound in 2H26.** The sector's yield spread has widened 64bp from Feb 26's low of 212bp to 276bp currently (vs 10-year mean of 203bp). This is due to a combination of: a) the ongoing Iran conflict impacting Visit Malaysia Year 2026 (VMY26), b) share price corrections after the removal of the WHT concession, and c) a higher 10-year MGS yield (from 3.5% to 3.6%). We view the wider REIT yield spreads as a reflection of investors' demand for higher gross yields following the removal of the WHT concession.
- **Selective upside from acquisitions and major refurbishments.** Looking ahead, sector valuations should remain supported by a stable interest rate environment and yield spreads, while the expected listing of IOI Properties REIT in 4Q26 could raise Malaysian REITs' visibility in the near term. We maintain MARKET WEIGHT and recommend staying selective in names with resilient assets, visible acquisition pipelines and attractive yields.
- **Asset acquisitions remain a key point to watch in 2H26,** especially for REITs with visible sponsor pipelines or industrial expansion targets. Specifically, SREIT continues to target RM14b-15b in asset value by end-27 (current: ~RM10b), while CLMT targets industrial and logistics assets to reach around 20% of assets under management (AUM) by 2028 (vs 11.5% after the latest forward purchase acquisition in Dec 25, pending full completion in Jan 28). Axis REIT also remains acquisition-focused, targeting around RM350m of logistics and industrial assets. Additionally, KIP REIT's announced acquisition of Setapak Central Mall is expected to lift overall asset under management to RM2.1b, ahead of its 2027 target of RM2b.
- **Upside to DPU growth.** Overall, we believe there is potential upside to our current sector DPU growth forecasts of 3.0% yoy in 2026 and 4.1% yoy in 2027 due to inorganic growth. The sector's average gross gearing was around 0.34x as of end-1Q26, still below the regulatory threshold of 50%. We understand that industry participants have requested for the REIT gearing limit to be raised to 60%; if approved, it would provide acquisition funding flexibility.

Sector Picks

Company	Ticker	Rec	Share Price (RM)	Target Price (RM)
CapitaLand Malaysia	CLMT MK	BUY	0.615	0.78
Pavilion REIT	PREIT MK	BUY	1.70	2.10
Sunway REIT	SREIT MK	BUY	2.21	2.80

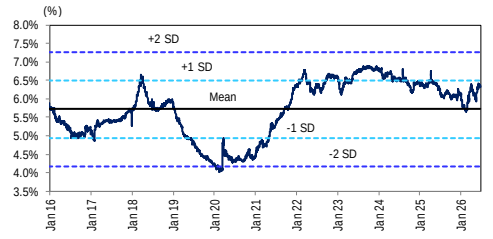
Source: Bloomberg, UOB Kay Hian

Sector Yield Spread To MGS



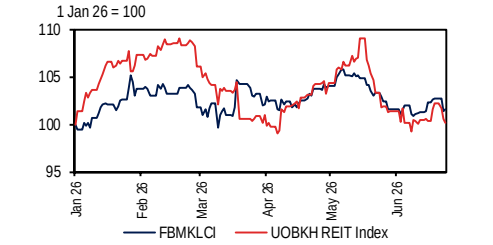
Source: Bloomberg, UOB Kay Hian

Sector 12-Month Forward Yield



Source: Bloomberg, UOB Kay Hian

UOBKH REIT Index vs FBMKLCI



Source: Bloomberg, UOB Kay Hian

Peer Comparison

Company	Ticker	Rec	Price 25 Jun 26 (RM)	Target Price (RM)	Upside To TP (%)	Last Year End	PE 2025A (x)	PE 2026E (x)	PE 2027E (x)	Yield 2026E (%)	ROE 2026E (%)	Market Cap. (RMm)	Price/ BV ps (x)
Axis REIT	AXRB MK	BUY	1.99	2.24	10.5	12/25	19.6	19.1	18.1	5.3	6.2	4,050	1.2
CapitaLand Malaysia	CLMT MK	BUY	0.67	0.78	26.8	12/25	12.7	12.0	11.6	8.2	5.3	2,070	0.7
IGB REIT	IGBREIT MK	HOLD	2.93	2.61	(1.5)	12/25	23.1	20.4	19.5	5.0	7.9	11,817	1.9
KLCC Stapled Group	KLCCSS MK	HOLD	9.01	8.51	5.2	12/25	19.9	18.9	18.2	5.3	5.9	16,248	1.1
Pavilion REIT	PREIT MK	BUY	1.99	2.00	23.5	12/25	18.6	17.7	17.1	6.1	6.8	6,678	1.2
Sunway REIT	SREIT MK	BUY	2.49	2.31	26.7	12/25	17.5	16.9	16.2	6.1	7.7	7,569	1.4

Source: UOB Kay Hian

Debt (Over Asset) Headroom For Future Acquisition

REIT	Gross gearing as of end 1Q26	Debt headroom to reach 0.45x
SREIT	0.40x	RM927m
CLMT	0.39x	RM596m
Axis REIT	0.34x	RM1.1b
KIP REIT	0.38x	RM221m
IGB REIT	0.25x	RM3.1b
PREIT	0.40x	RM797m

Source: Respective companies, UOB Kay Hian

- **AEIs to lift overall portfolio value.** In 2H26, selected retail malls are undertaking phased asset enhancement initiatives (AEI) to enhance tenant mix and DPU in the long term. Key AEIs include Pavilion Kuala Lumpur's reconfiguration of 50,000-60,000sf of Parkson Elite's former space, equivalent to around 4% of the mall's NLA, into multi-tenant lots by end-26. Sunway 163 is also undergoing two-year phased refurbishment works, with the mall's lower ground floor reconfiguration targeted for completion before Christmas this year. Other AEIs include CapitaLand Malaysia Trust's (CLMT) refurbishment of The Mines by end-26 and KIP REIT's plan to refurbish KIP Masai.
- **Overall, we remain cautiously optimistic on retail segments,** supported by resilient occupancy and positive rental reversions. Key things to watch out for include higher utilities costs, higher service-related costs from the SST expansion effective 1 Jul 25, and potential softness in luxury and tourist spending. Nevertheless, we have incorporated these headwinds into our assumptions and expect earnings growth to remain positive.
- **Extended VMY26 provides longer runway for hospitality demand.** Hospitality was uneven in 1Q26, with softer MICE and banquet demand, temporarily affected by the cancellation of official government and GLC Hari Raya open houses. That said, VMY26's increased promotional focus on other ASEAN countries should help cushion demand softness, while its extension to 2027 provides a longer runway for tourism recovery. PREIT is relatively insulated by fixed leaseback rentals for Pavilion Hotel Kuala Lumpur and Banyan Tree Kuala Lumpur, while KLCCSS' Mandarin Oriental near-term performance could be impacted by progressive refurbishment until end-Aug 26. Outside of KL City Centre, Sunway REIT expects its hotel performance to improve sequentially in 2Q26, supported by convention centre events and large group bookings.

Valuation/Recommendation

- **Maintain MARKET WEIGHT.** Sector yield spread widened 64bp to 276bp, following share price corrections after the WHT concession was officially removed, while the 10-year MGS yield rose from 3.5% to 3.6%. In our view, the wider spread should not be read as purely attractive, as it reflects investors' demand for higher pre-tax yield to offset the removal of the WHT concession. Hence, we maintain MARKET WEIGHT, but see scope for renewed investor interest as rising macro uncertainty could support defensive rotation into REITs, coupled with event-driven catalysts such as SREIT's potential acquisition of Sunway Velocity Mall, IOI Properties' planned REIT listing, and tourism recovery. Our top picks are CLMT, PREIT and SREIT.

Sector Catalyst/Risk

- Intensifying competition from new mall and hotel openings impacting footfall and occupancy.
- Softening retail sales momentum.
- Higher construction and refurbishment costs, potentially diluting acquisition yields.

Key Assumptions

(%)	2025	2026F	2027F
Revenue Growth	7.2	7.9	4.0
Core Earnings Growth	13.4	11.0	4.6
DPU Growth	11.2	3.0	4.1

Source: Respective companies, UOB Kay Hian

Implied 2026 Yield By REIT

Axis REIT	4.8%
Capitaland REIT	6.5%
IGB REIT	5.1%
KLCC REIT	5.3%
Pavilion REIT	4.9%
Sunway REIT	4.8%

Source: Respective companies, UOB Kay Hian

Forward Yield Spread Vs Historical Mean

	10-year mean	5-year mean	12-month forward yield spread
Axis REIT	1.48	1.41	1.64
Capitaland REIT	2.41	3.51	4.86
IGB REIT	1.61	1.93	1.54
KLCCSS	1.49	2.04	1.82
Pavilion REIT	1.66	2.61	2.47
Sunway REIT	1.78	2.11	1.66
KIP REIT	4.18	4.09	5.32

Source: Respective companies, UOB Kay Hian

CLMT 12-Month Forward Yield Spread

Source: Bloomberg, UOB Kay Hian

PREIT 12-Month Forward Yield Spread

Source: Bloomberg, UOB Kay Hian

SREIT 12-Month Forward Yield Spread

Source: Bloomberg, UOB Kay Hian

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